

Acting Ambidextrously in Retail Banking to Achieve Service and Sales Goals Simultaneously: A Multilevel Perspective

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Abstract

Ambidexterity refers to an organization's capacity to achieve two seemingly conflicting goals simultaneously—in this study, the ability of customer-facing employees to achieve sales and service goals at the same time. We examine a range of organizational contextual variables (i.e. empowerment, team support, fairness of rewards, and transformational leadership) to empirically model the antecedents of ambidexterity at the individual and branch levels in a retail banking setting. We found that all the contextual variables have a significant impact on branch ambidexterity at the individual level; however, only empowerment, team support, and fairness of rewards have a significant group-level effect on branch ambidexterity. We also found a positive relationship between branch ambidexterity and branch financial performance.

Keywords: Service-sales ambidexterity, cross-selling and up-selling, retail branch context, retail banking.

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Introduction

In today's highly competitive environment firms are compelled to grow revenue *and* achieve productivity increases. Hence it is not surprising then that a major focus of many service organizations today (e.g., retail, travel, coffee chains, airlines, automotive services, retail banking) is how to successfully transform their traditional service branches/units into being highly competent in achieving *both* service and sales targets. In other words branches must act ambidextrously to provide sufficiently high levels of service quality and, at the same time, devote enough energy to explore up-selling and cross-selling sales opportunities to achieve sales targets. Recognizing the benefits of achieving branch ambidexterity, many companies (e.g., Ford Motor Company, Starbucks, British Airways, Commonwealth Bank of Australia, and National Australia Bank) have recently initiated restructuring to build ambidextrous capacity.

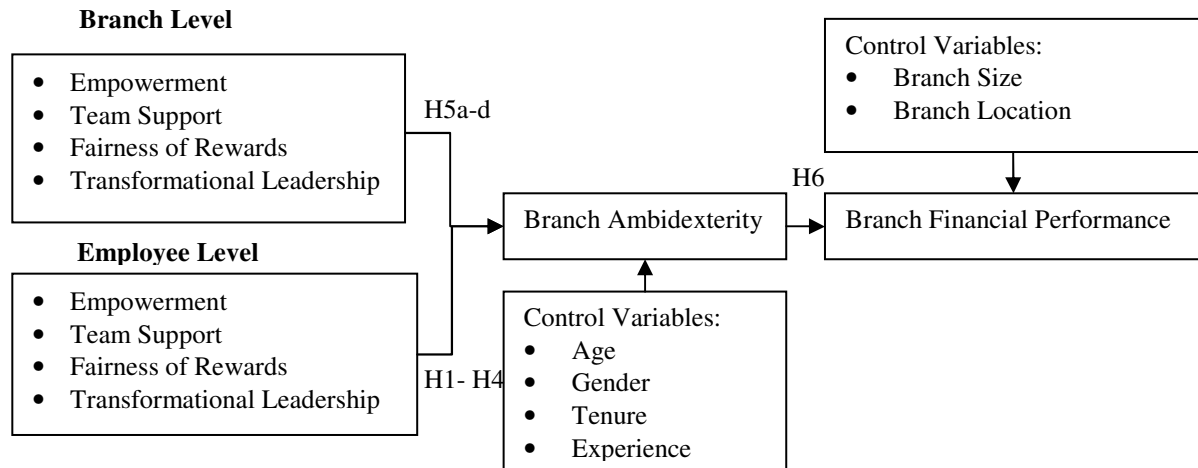
Ambidexterity research recognizes that firms face difficulties in simultaneously achieving seemingly conflicting goals and have identified key antecedents that may enhance a firm's ambidextrous capacity (Mom et al., 2007). Ghoshal and Bartlett (1994) argued that organizational context (e.g., extra-role citizenship behavior; achieving short term sales versus building longer term customer relationships) may influence the actions of individuals within a firm (e.g., working hard versus not working hard). Contextual variables thus may serve as key determinants of a firm's ability to pursue dual sets of goals (Adler, Goldoftas, & Levin, 1999; Gibson & Birkinshaw, 2004). However, there are issues within the ambidexterity literature related to the impact of organizational context yet to be addressed. *First*, ambidexterity is a context-specific capacity. The majority of ambidexterity studies have been conducted in such contexts as technological innovation and organizational learning (Gupta, Smith, & Shalley, 2006), it is not clear if ambidexterity serves the same role in other contexts. He and Wong (2004) thus called for studies to further examine ambidexterity in other domains. *Second*, the majority of ambidexterity studies examine the antecedents and consequences from a single level perspective without taking the hierarchical nature of organizations into consideration. Kenny and La Voie (1985) pointed out this as a weakness of conventional analysis methods that focusing on one level and excluding the other. *Third*, leadership has been identified as a crucial factor that impacts organizational ambidexterity (Simsek et al., 2009). However, most studies focus on leadership at the senior/upper level of management (e.g., Lubatkin et al., 2006) rather than examining the impact of lower-level leadership. The day-to-day local leadership (e.g., branch manager) on the simultaneous pursuit of goals (sales *and* service) at lower business unit level (i.e., branch) may also have significant impact on ambidexterity. *Fourth*, logically, the achievement of disparate goals should enhance a firm's financial performance (March, 1991). However, few studies have reported how ambidexterity influences a firm's performance (He and Wong, 2004).

To address these issues, we empirically examine the impact of branch contextual variables on ambidexterity (achievement of sales *and* service goals) from a multilevel perspective, and examine the impact of ambidexterity on branch-level financial performance.

Conceptual Framework

We extend Gibson and Birkinshaw's (2004) ambidexterity framework on the impact of organizational context to develop the following conceptual model (Figure 1):

Figure 1: A Multilevel Model of the Antecedents and Consequences of Branch Ambidexterity



Empowerment Yagil (2006) suggested that empowerment “provides individuals with important resources such as autonomy, participation in decision-making and a sense of competence, which help them cope with stressful events” (p. 259). The simultaneous pursuit of service and sales goals (which involves cross- and up-selling) can often be stressful. Empowered staff are more likely to cope with the stress from dealing with these conflicting and challenging tasks. For instance, if a frontline employee of a bank branch is given the discretion to refund an overcharged account maintenance (or any mischarged) fee on the spot, the customer is more likely to be satisfied with the outcome and therefore more likely to consider the financial products suggested by the staff. Or in peak periods when customer queues are lengthy, must an employee strictly follow the script and try to sell products to every customer, or neglect selling opportunities thereby speed up customer service? Giving employees discretion in such circumstances is known to role conflict and stress. With a dual service and sales role, staff need to be empowered with the discretion of deciding when and which customers have the potential for a sale rather than following a scripted approach of “selling” to all customers. We thus form the hypothesis: *H1: Empowerment of employees is positively related to branch ambidexterity.*

Team Support This refers to the mutual support among team members. In a retail bank context, branch staff work together to achieve group outcomes (Griffin, Patterson, & West, 2001). It is well documented that team support among team members is strongly associated with team effectiveness (Drach-Zahavy & Somech, 2002). de Jong et al. (2005) argued that frontline staff often require information and resources from other team members, and the support of the team members is often crucial to perform given tasks. To effectively act ambidextrously, staff in a retail bank branch need to work together. Sales staff are heavily dependent on service staff to refer the right potential customers to them. On the other hand, to identify the right potential customer, service staff may need information from sales staff to know how to filter customers. If branch staff perceive there is strong team commitment, they are more likely to work hard on behalf of the team and internalize this support as a team

value. They are also more likely to provide support to other team members when required. Hence hypothesis *H2: Team support is positively related to branch ambidexterity.*

Fairness of Rewards The relationship between rewards and employee behavior at work is well established in previous studies (Sujan, 1986; Sarin & Mahajan, 2001). For instance, Siegrist et al. (2004) argued that the effort staff invest is influenced by intrinsic and extrinsic rewards. Reward systems are thus important to ensure that staff perceive that their investment of effort is justified. The structure and design of the rewards provide direction to where individuals should invest their efforts in order to reward, thus impacting ambidexterity. Jansen et al. (2008) found that rewards are positively associated with organizational ambidexterity at the senior team level. Building on equity theory, we focus on the fairness aspect of rewards and argue that reward systems for achieving sales and service targets need to be perceived by staff to be fair and appropriate. Janssen (2000) suggested that if effort is rewarded fairly, employees are more likely to reciprocate by going the extra mile to perform their given roles. Hence *H3: Fairness of rewards is positively related to branch ambidexterity.*

Transformational Leadership Bass (1999, p. 11) described transformational leadership as the leader's influence on the subordinate through "idealized influence (charisma), inspiration, intellectual stimulation, or individualized consideration." By exercising these key behaviors, transformational leaders tend to make subordinates "feel trust, admiration, loyalty, and respect toward the leader, and they are motivated to do more than they originally expected to do" (Yukl, 2006, p. 262). One of the elements of contextual ambidexterity—*alignment*—concerns "the coherence among all the patterns of activities" (Gibson & Birkinshaw, 2004, p. 209). With the presence of transformational leadership, it is more likely that such coherence can be achieved, because the leader monitors the process and ensures staff all work together toward the same goal and. Without the presence of transformational leadership, it is less likely that the staff in the branch would be able to reach such coherence amongst themselves. Liao and Chuang (2007) also found that employees' perception of transformational leadership is significantly related to employees' service performance. Hence *H4: Transformational leadership is positively related to branch ambidexterity.*

Group-level effects While both individual- and group-level processes can occur in a group, Kenny and La Voie (1985) pointed out the weakness of conventional analysis methods of focusing on one level and excluding the other. They argued that simultaneously studying both group- and individual-level processes provides in-depth insight into multilevel constructs. The same construct at different levels has different theoretical meanings and may exercise its impact on a branch's performance through different paths. For instance, Seibert, Silver, and Randolph (2004) illustrated that empowerment at different levels (i.e., individual and work unit) impacted performance differently and led to different consequences. de Jong et al. (2005) followed the direct consensus model proposed by Chan (1998) using group average of the individual measures (e.g. employees' perception of management support) to aggregate constructs measured at the employee level to the team level. They argued that aggregation represents the shared perception of collective belief and can be used to test the group-level effect. Similar to de Jong et al.(2005), the relationship between predictors (i.e., empowerment, team support, fairness of rewards, and transformational leadership) and branch ambidexterity in our study is primarily hypothesized at the individual level (i.e. individual staff's perception of empowerment, team support, fairness of rewards, and leadership). To provide a greater understanding of the influence of antecedents at two levels, we follow the direct consensus model to explore the shared perception of collective belief within a branch. We argued that

not only individual staff's belief but also the collective belief in a branch will have impact on branch ambidexterity. Thus our next hypotheses: *H5: At the group level of analysis (i.e., bank branch), the positive effects of (a) empowerment, (b) team support, (c) fairness of rewards, and (d) leadership account for a significant amount of additional variance explained in branch ambidexterity.*

Branch ambidexterity and branch financial performance While Ebben and Johnson (2005) found that small firms pursuing either efficiency or flexibility outperform those with mixed efficiency and flexibility strategies, most of the ambidexterity studies found ambidexterity to be positively related to performance (e.g., Judge and Blocker, 2008; Lubatkin et al., 2006). Gibson and Birkinshaw (2004, p. 211) found that the level of ambidexterity is positively associated with the level of business performance. Their result is consistent with Lubatkin et al.'s (2006) study, in which they contend that the pursuit of ambidexterity is positively associated with subsequent relative firm performance. O'Reilly and Tushman's (2004) study also suggest that ambidextrous organizations tend to achieve their goals. In that study, 90 percent of the organizations that were identified as ambidextrous, achieved their goals. Furthermore, the 'linkage' stream of research (e.g., Schneider et al., 2005) found limited support for the notion that engaged and committed employees typically deliver superior service, resulting in a higher level of customer loyalty and ultimately profitability. Finally, logic also dictates that if both sales and customer service targets are met, then this will flow through to branch financial performance. We thus form the hypothesis: *H6: Branch ambidexterity is positively related to branch financial performance.*

Method and Results

A final sample size of 2,306 employees representing 267 branches was obtained from a large Thai retail bank. The measurement scales for all constructs were sourced from the literature. They are assumed to have content validity (Netemeyer, Bearden, & Sharma, 2003): Empowerment: Mathieu, Gilson, and Ruddy (2006, $\alpha = .92$); team Support: de Jong et al. (2004, $\alpha = .88$); Fairness of Rewards: Sarin and Mahajan's (2001; $\alpha = .92$); Transformational Leadership: Podsakoff et al. (1990; $\alpha = .97$); Branch Ambidexterity: Lubatkin et al. (2006, service orientation, $\alpha = .89$; sales orientation, $\alpha = .91$); Branch Financial Performance: A key metric employed by the bank is the ratio of each branch's annual performance against various financial targets (Gelade and Young, 2005). We used Hierarchical Linear Modeling (HLM) and SPSS to test the hypotheses (Hofmann and Gavin, 1998; Seibert, Silver, & Randolph, 2004).

We establish convergent and discriminant validity using confirmatory factor analysis (Diessner et al., 2008; Gibson & Birkinshaw, 2004). The indices of the proposed factor model yield a sound fit. For within-method convergent validity, all items loaded significantly on their respective construct (minimum t -value = 21.03), and all items had a standardized loading of at least .50. To establish discriminant validity, we follow Fornell and Larcker's (1981) recommended procedure. The average variance extracted (AVE) for all constructs were above .50 (ranges from .62 to .80). We compared the AVE of any two constructs with the square of the correlation between these two constructs, and the AVE for any two constructs exceeds the square of the correlations.

The variables in the model represent branch characteristics, and they are measured by using individual employees as raters to assess the characteristics of the branch to which they belong, which is described as “shared unit-level constructs” (Klein & Koslowski, 2000). To test the assumption of shared belief within a branch, we explored the level of agreement within branches, namely, within-group agreement. An interrater reliability coefficient (*Rwg*) test is appropriate to illustrate if such agreement within branches exists (Dixon & Cunningham, 2006; James, Demaree, & Wolf, 1993). The range for *Rwg* is from 0.83 to 0.97 which are all above the cutoff point 0.6 (Glick, 1985). Results suggest a high degree of interrater reliability, and thus adequate agreement for aggregation. We thus conclude that perceptions were shared within branches. We also calculate ICC(1) and ICC(2) by using one-way analysis of variance (ANOVA) on the employee-level data. ICC(1) coefficients (ranging from 0.27 to 0.38) are all above zero with a corresponding significant ANOVA test statistic (*F*) (Kenny & La Voie, 1985). All ICC(2) values (range, 0.64 to 0.79) are well above the 0.5 cutoff acceptable level (de Jong et al., 2005). The results of ICC(1), ICC(2), and *Rwg* suggest it is appropriate to aggregate empowerment, team support, fairness of rewards, and transformational leadership to the branch level. The ICC(1) for branch ambidexterity is 0.30 indicating 30 percent of the variance in employees’ perception of branch ambidexterity resided between branches and 70 percent of the variance resided within branches. The results suggest the use of HLM analysis is appropriate in this case (Marrone, Tesluk, & Carson, 2007).

HLM results suggested that employees’ perception of empowerment ($\gamma = 2.574, p < .01$), team support ($\gamma = 1.151, p < .01$), fairness of rewards ($\gamma = 1.099, p < .01$), and transformational leadership ($\gamma = 1.276, p < .01$) at the individual level are all positively associated with branch ambidexterity; thus hypotheses 1, 2, 3, and 4 were supported. To test hypotheses 5a, 5b, 5c, and 5d, the aggregated branch-level variables were added in the model. The results suggested that empowerment ($\gamma = 2.34, p < .01$), team support ($\gamma = -2.407, p < .01$), and fairness of rewards ($\gamma = 1.49, p < .01$) at the branch level are positively associated with branch ambidexterity. Transformational leadership was not significantly related to branch ambidexterity, thus hypothesis 5d was not supported. This is similar to Liao and Chuang’s (2007) finding. Their study only found the significant impact of individual-level transformational leadership on employee service performance. No significant impact of work unit-level transformational leadership was found. To test hypothesis 6, we aggregated the employee-level perception of ambidexterity to the branch level and performed a multiple regression analysis to see if there is a positive relationship between these two variables. We include branch size and branch location as control variables. The results indicate that there is a significant positive relationship between branch ambidexterity and branch financial performance ($F = 17.93, R \text{ square} = 0.123, p < .05$). In other words, 12.3% of the variance in branch financial performance is explained by branch ambidexterity. Hypothesis 6 was thus supported.

Conclusion

We build on the growing ambidexterity literature exploring how contextual variables may enhance branch ambidexterity, and ultimately branch level profitability in a retail bank setting. As organizations in a range of service industries attempt to successfully build ambidexterity capacity, our findings might well be applied to settings such as retailing in general, coffee chains, airlines, travel agencies, hairdressing salons and the like. Further discussion of the findings and managerial implications will be presented at the conference.

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